Headquarters, United States Marine Corps

Manpower & Reserve Affairs

Separation and Retirements

Retired Activities
(MMSR-6)

1 August 2011

The Survivor Benefit Plan

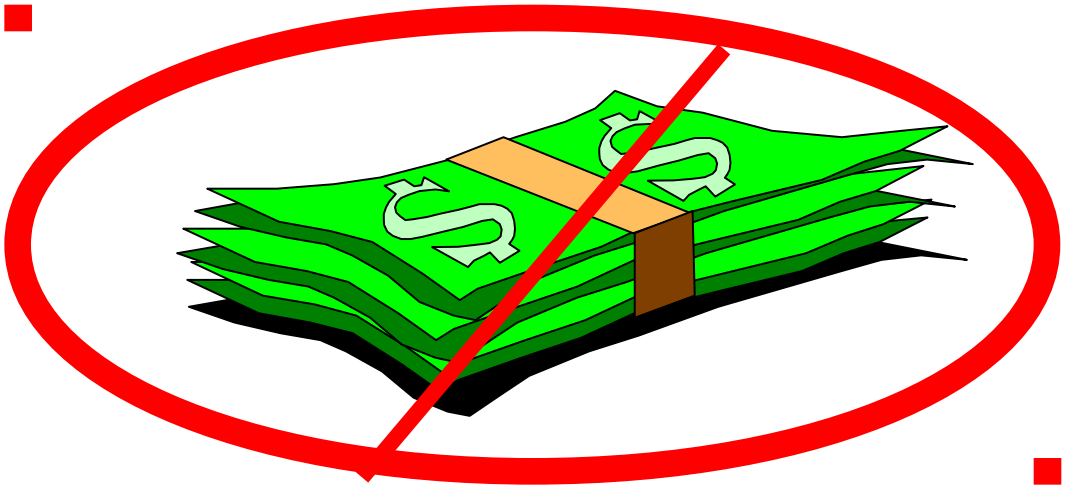
(SBP)

Purpose

This briefing will break SBP down into manageable understandable blocks, to help you to make an informed decision on your individual SBP election.

The Bottom Line

THE BOTTOM LINE
RETIRED PAY STOPS_____



WITH THE DEATH OF THE RETIREE!

Spouse Outliving You ?

What is the risk of your spouse outliving you ?

- Life Expectancy (Note 1)
- Male **75.1** years
- Female **80.2** years
- SBP Annuitants Who Exceed Life Expectancy: **45% or 117,755** (Note 2)

- Note 1: US Census Bureau , The 2010 Statistical Abstract
- Note 2: Source: DOD Actuary Statistical Report on Military Retirement System

What is SBP ?

- **Enacted by Congress in 1972**
- **Sole means for retiree to continue a portion of retired pay to survivors**
- **Coverage is free while on active duty**
- **Decision at retirement -- begin to share cost**

The Annuity & Elections

Amount:

- **Annuity of 55% of selected base amount regardless of the annuitant's age.**

Elections:

- **Must be made *before* retirement**
- **Certain elections need spouse concurrence**
- **Generally irrevocable- -**

  with spouse concurrence, may be cancelled between months 25-36 following retirement

Joint Decision

A *"JOINT"* Decision For Married Marines Who . .

- Decline coverage
- Cover less than full retired pay
- Elect "child only"
- Are under REDUX retirement plan and <u>do not elect</u>

  full base amount based on retired pay they would

  have received under High-3

It is the Marine's election

- The spouse can only concur or non concur

Termination Features

- **Termination during one-time, one-year window between 25th and 36th months. after start of retired pay**
- **Spouse concurrence required**
- **Barred from future open enrollments**
- **No refund of past premiums**
- **Why the law change?**

--acknowledges need for flexibility

Six Election Categories

- **Spouse Only**
- **Spouse & Child**
- **Child Only**
- **Former Spouse Only**
- **Former Spouse & Child**
- **Insurable Interest**

Note- Of the six elections we will only address two.

Spouse Election

- **Provides annuity of 55% regardless of the surviving spouse's age**
- **Annuity paid forever (unless remarriage occurs pre-55)**
- **If remarriage ends, annuity reinstated**
- **Increased by annual COLA**
- **Taxable as an annuity**
- **Cost is suspended with no beneficiary**

Former Spouse (FS) "Particulars"

- **FS coverage can be**:
  - **- Purely voluntary**
  - **- Incorporated into a written agreement**
  - **- Court-ordered**
- **If divorce prior to retirement:**
  - **If court ordered, Marine should elect former spouse at retirement or could be held in <u>contempt of court</u>**
  - **FS must provide DFAS-CL divorce decree <u>plus</u> written request for a deemed election within one year of the court order**
- **FS coverage can be changed if court order is amended or vacated by FS's death**

Base Amount

- Amount of retired pay (in dollars) participation is based on
- Minimum, by law = $300
- Maximum, by law = full retired pay
- May choose any $$ amount between
- Marines retiring under CSB/REDUX may choose full base amount based on retired pay they would have received under High-3.

SBP Cost Formula (Spouse Only)

- **Formula:**
- **- 6.5% of base amount selected**
- **Examples:**
  - **Base Amount: $2000 $3000 $4000**
  - **Cost (6.5%) $ 130 $ 195 $ 260**
  - **Annuity provided: $1100 $1650 $2200**

Sample SBP Costs

- **(Ages: Member=44; Spouse=41; Youngest Child=12)**

- ***Monthly Cost***
- **Base Spouse Spouse Child Annuity**
- **Amount Only & Child Only Amount**
- **- - - -

SBP's Real Cost- Tax Advantage

	NO SBP *	SBP
• Retired Pay	$2,000	$2,000
• SBP Cost	$ 0	$ 130
• Taxable Pay	$2,000	$1,870
• Tax Paid (28%)	$ 560	$ 524
• Tax Savings	$ 0	$ 36
• **Actual SBP Cost**	**$ 0**	**$ 94**

*The SBP participant receives a $36/month tax savings – and a future survivor benefit of $1,100. Tax rates will vary base on each individual's financial situation.

Threshold Amount

- **Portion of base amount which costs 2.5%**
- **Only applies to Marines whose Date Initially Entered Military Service (DIEMS) date was prior to 1 Mar 90, medical retirements, or reserve non-regular age 60 retirement.**
- **Indexed annually to AD pay raise(s)**
- **Instead of a $300 base, cover base amount at 2.5%**
- **Effective 1 Jan 10**

	Base	Cost	Annuity
• Threshold	$725.	$18.13	$399.

Can I Tailor SBP to Meet My Need ?

Yes … Think "Base Amount"

- **<u>Challenge</u>: What base amount should I cover to meet our needs?**

- **<u>Solution</u>: Divide the goal amount by 55%**

- **<u>Examples</u>:**
- **$2000 annuity -- choose $3636 as base**
- **$1000 annuity -- choose $1818 as base**

30- Year Paid-Up Provision

- **effective 1 Oct 2008**
- **no further cost (but annuity payable)**

AFTER…

- **30 years of paying SBP Premiums (360 payments)…**

AND

- **reaching age 70**

Unbeatable Features

- **Government-subsidized plan** **(Government pays at least 40% of the program true costs; more for enlisted)**
- **Tax-free premiums**
- **Inflation-adjusted annuity**
- **Level-term plan annuity of 55 percent**
- **Flexible: can terminate between ret years 2-3**
- **“Paid-up” after 30 years paying premiums + age 70**
- **Survivors cannot outlive annuity**
- **Age, health, smoking, sex, lifestyle -- not considered**
- **Cost in today’s dollars; benefit in tomorrow’s dollars**
- **Can only be changed by Congress**
- **Income safety net; peace of mind**
- **Every active duty Marines enrolled at no cost from Day One**

Four Main Points When Comparing SBP to Life Insurance

- It takes a **surprising** amount of insurance to do for the spouse what SBP will (based on averages).
- It will take **a lot more** insurance if the spouse outlives the retiree by the longest period of time.
- The amount of insurance needed over time **rises due to inflation**.
- Even though insurance may appear to be an inexpensive "alternative" *at retirement*, it's **harder to obtain and increasingly expensive** as you age.

Replacement Value Of Annuity

- **Ret Pay: $5000**
- **Member's Age: 43 Spouse's Age: 42**

Spouse's Age At Marine's Death	Annual After-Tax SBP Annuity	Replacement Value of SBP*
42	$29,700	$830,444
53	$38,752	$944,099
63	$52,079	$998,434
73	$69,990	$939,095
83	$94,061	$738,339

*Face value of insurance needed to equal SBP benefit.

- Assumes an inflation amount of 3% and return on invested insurance of 5.75%.
- Based on DOD Actuary SBP Program, Spouse will live to age 86.
- Note: To access this program go to DOD Actuary homepage, ww.dod.mil/actuary/, click on "SBP Programs."

Replacement Value Of Annuity

- **Ret. Pay: $3000**
- **Member's Age: 43** **Spouse's Age: 42**

Spouse's Age at Death	Annual After-Tax SBP Benefit	Replacement Value of SBP*
43	$17,820	$433,516
54	$23,344	$487,644
64	$31,372	$506,232
74	$42,162	$473,925

*Face value of insurance needed to equal SBP benefit.

- Note: This program can be accessed on the DOD Actuary homepage, www.dod.mil/actuary/,

Replacement Value Of Annuity

- **Ret Pay: $2000**
- **Member's Age: 43 Spouse's Age: 42**

Spouse's Age At Marine's Death	Annual After-Tax SBP Annuity	Replacement Value of SBP*
42	$11,880	$323,556
52	$15,501	$357,841
62	$36,610	$373,331
72	$64,820	$355,949

*Face value of insurance needed to equal SBP benefit.

- Assumes an inflation amount of 3% and return on invested insurance of 5.75%.
- Based on DOD Actuary SBP Program, Spouse will live to age 86.
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Average Cost of Whole Life Insurance

The average cost for a $250,000 “Whole Life” insurance policy for a 42-year-old man is $138.98 per month.

The average cost for a $500,000 “Whole Life” insurance policy for a 42-year-old man is $300.42 per month.

The average cost for a $1,000,000 “Whole Life” insurance policy for a 42-year-old man is $593.50 per month.

Life Insurance Proceeds– How Long Does It Last ?

(Ret Pay = $5000; Life Insurance = $500K)

Death Year	***Spouse Age***	***Insurance Proceeds***	***After-Tax SBP Benefit***
201142		**$500,000**	**$29,700**
201647		**$464,972**	**$34,430**
202152		**$391,462**	**$39,914**
202657		**$ 263,899**	**$46,272**
203263		**$ 659**	**$55,251**
203364		**$ 0**	**$56,908**

- Assumes an inflation amount of 3%, return on invested insurance of 5.75%, and spouse lives to 86 .
- Insurance runs out in 2032, years without insurance proceeds 23
- Note: To access this program go to DOD Actuary homepage, www.dod.mil/actuary/, click on “SBP Programs.”

Life Insurance Proceeds– How Long Does It Last ?

(Ret Pay = $3000; Life Insurance = $250K)

Death Year	Spouse Age	Insurance Proceeds	After-Tax SBP Benefit
2011	42	$250,000	$17,820
2016	47	$214,636	$20,658
2021	52	$152,065	$23,949
2026	57	$ 51,764	$27,763
2027	58	$ 533	$28,596
2028	59	$ 0	$29,454

- Spouse's expected age at death 82
- Years without insurance proceeds 23

Note: To access this program go to DOD Actuary homepage, www.dod.mil/actuary/, click on "SBP Programs," and select the program, "Insurance".

Life Insurance Proceeds– How Long Does It Last ?

(Ret Pay = $2000; Life Insurance = $200K)

Death Year	***Spouse Age***	***Insurance Proceeds***	***After-Tax SBP Benefit***
2011	**38**	**$200,000**	**$11,918**
2016	**43**	**$185,760**	**$13,816**
2021	**48**	**$156,024**	**$16,017**
2026	**53**	**$104,530**	**$18,568**
2031	**58**	**$ 22,926**	**$21,525**
2032	**59**	**$ 239**	**$22,171**
2033	**60**	**0**	**$22,836**

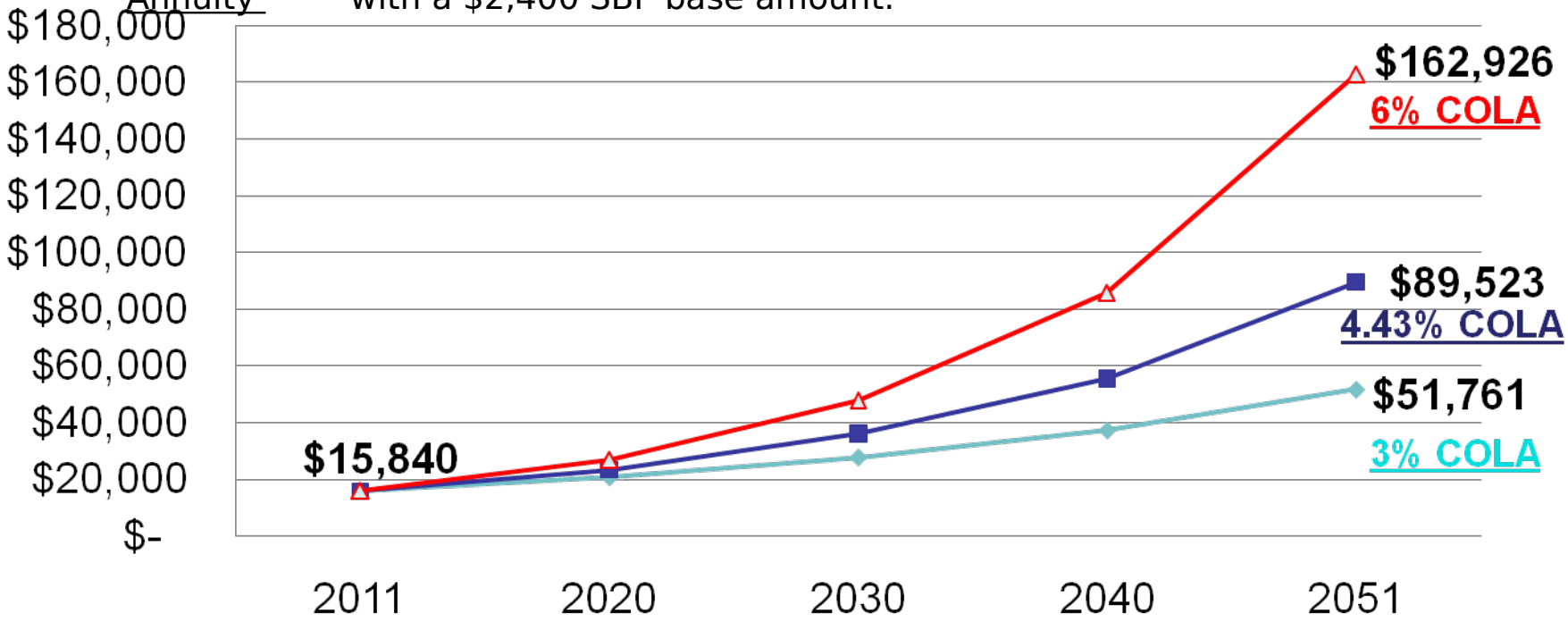
- Spouse's expected age at death 82
- Years without insurance proceeds 23

Note: To access this program go to DOD Actuary homepage, www.dod.mil/actuary/, click on "SBP Programs," and select the program,

SBP Cost of Living Adjustments (COLA)

Yearly SBP Annuity for a GySgt

This Chart shows the positive effect of COLA on SBP over 40 years for with a $2,400 SBP base amount.



Remember, you pay in today's dollars for an SBP annuity paid in future dollars.

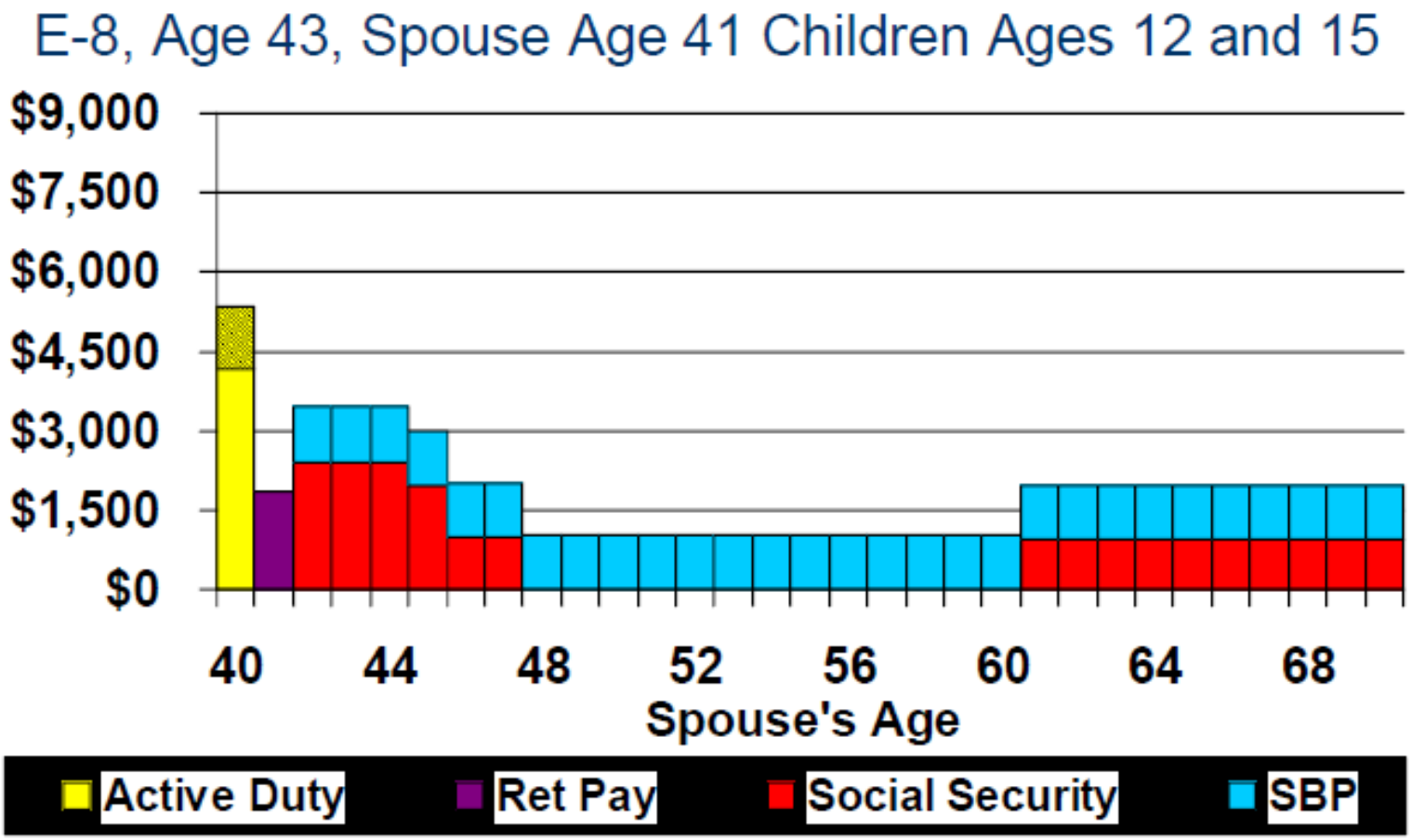
- 3% COLA represents current average inflation
- 4.43% COLA represents inflation average over previous 40 years
- 6% COLA represents moderate inflation

Years Required for Annuity to Exceed Premiums Paid for Spouse SBP

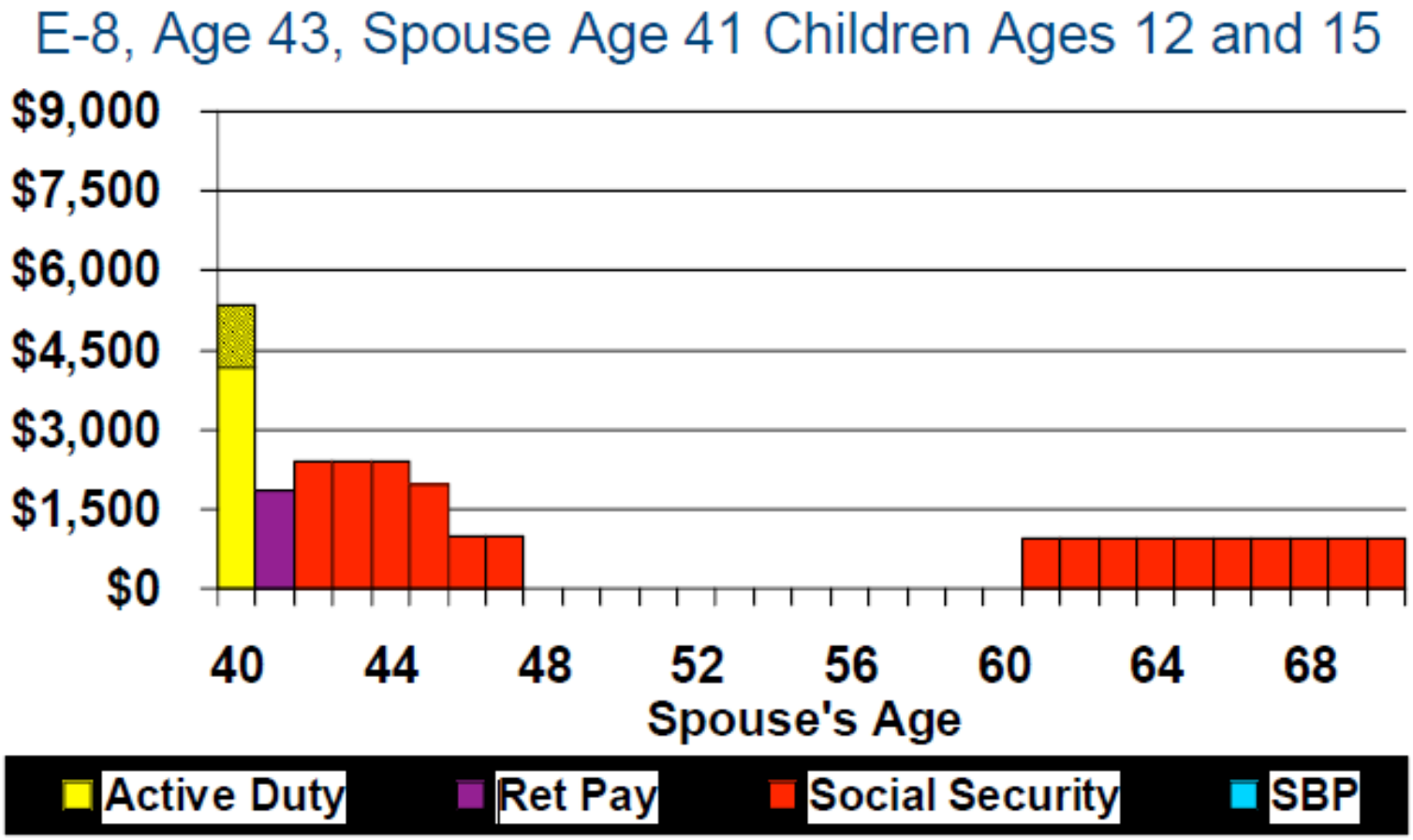
Length of time Premiums Paid	Years for Annuity to Exceed Premiums Paid
5 Years	8 Months
10 Years	1 Year, 1 Months
15 Years	1 Year, 6 Months
20 Years	1 Year, 10 Months
25 Years	2 Years, 2 Months
*30 Years	2 Years, 5 Months

*No further cost after 360 (30 years) premium payments and age 70)

Death in Retirement with SBP



Death in Retirement without SBP



Comparing Alternatives

When comparing costs, risks, and benefits, it's helpful

to compare costs with the **Net Premium** for SBP

- How risky is the alternative?
- Could your spouse outlive the benefits?
- Are the benefits protected against inflation?
- How long are you committed to pay for the alternative?
- Can the alternative provide living benefits such as tax-deferred savings or long-term care benefits if you should outlive the need for protection?

For More Information

For more information on the Survivor Benefit Plan

Log on to: www.manpower.usmc.mil
Click on: Veteran Marine, MMSR, Retired Activities, SBP

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References

- **Title 10, U.S. Code, Sections 1447-1455**
- **Executive Order 11687**
- **DoD Directive 1332.27**
- **NDAA 2002, Section 642, Public Law 107-107**
- **Memorandum dtd 01 May 2002; SBP Annuities When Member Dies on Active Duty**
- **MarAdmin 242/08**

Useful Websites

For information on the Survivor Benefit Plan go to the Manpower and Reserve Affairs – Retired Activities website: http://www.manpower.usmc.mil - Click on Veteran Marine – MMSR – Retired Activities – SBP

To estimate retired pay and SBP costs go to one of the following websites:
https://staynavytools.bol.navy.mil/RetCalc/Default.aspx
http://actuary.defense.gov/
http://navymutual.org

For Information on Dependency and Indemnity Compensation (DIC) go to the Veteran's Administration website: http://www.va.gov - Scroll to the bottom of the page and click on Survivor Benefits.

For Information on Social Security Benefits go to the Social Security Administration website: http://www.ssa.gov

For Information on Retirement Pay go to the Defense Finance and Accounting (DFAS) website: http://www.dfas.mil - Click on Retired Pay

For Information about Tricare go to the Tricare website: http://www.tricare.mil

For Useful Information go to: http://www.defenselink.mil - Click on Employee Resources